

14. Explain why AMM (which has between 500-600 customers in contrast to ACC's 170 access lines) earned 77 percent of the cooperative's customer revenues in 2014 yet AMM incurred only 32 percent of the cooperative's operating expense, excluding depreciation and amortization.

Response: An extensive analysis prepared for 2014 of the accounting and other cost assignments has been provided that provides insight into explanation of the difference in the relative percentage of revenue and operating expense attributable to Allband Multimedia and non-regulated services. This analysis was provided in response to Document Request No. 6. A summary of this analysis is provided below. Allband Communications Cooperative (Cooperative) only submits expenses that are classified as regulated for purposes of determining the amount of High Cost Loop and Interstate Common Line Support. The relevant comparison is not the amounts shown on the financials for the affiliates, but rather the expenses included in the Part 36, Part 54 and Part 69 cost submissions to NECA and USAC for purposes of determining USF.

Also of interest is that if total revenue is evaluated, the relative percentages starkly contrast to those stated in the question. For total revenue, the Cooperative represented 75% and Multimedia represented 25%. This percentage more closely aligns to the operating expense percentage of 32% for Multimedia stated in the question. Evaluation of only a portion of the customer-specific revenue significantly skews the actual revenue percentages and is not indicative of the overall operations.

The information below shows the percentage expense assignment to regulated and non-regulated operations, including Allband Multimedia, by major expense category.

**Part 32 Based Expense Categorization and Amounts:**

	<u>Total</u>	<u>Regulated</u>	<u>%</u>	<u>Non-Regulated</u>	<u>%</u>
1 Plant Specific Operations	287,279	108,830	38%	178,449	62%
2 Network Operations	223,572	100,361	45%	123,211	55%
3 Plant Non-specific Operations	3,535	3,316	94%	219	6%
4 Customer Operations	147,598	72,878	49%	74,720	51%
5 Corporate Operations	318,556	294,062	92%	24,494	8%
6 Total Excluding COGS & Depreciation	980,540	579,447	59%	401,093	41%
7 COGS	14,737	-	0%	14,737	100%
8 Depreciation	371,689	364,486	98%	7,203	2%
9 Total Including Depreciation	1,366,966	943,933	69%	423,033	31%
10 Eliminations - Financials	34,840	-	0%	34,840	100%
11 Total Net of Eliminations	1,332,126	943,933	71%	388,193	29%

There are several items which drive the difference or explain why the Cooperative's percentage of regulated operating expense is significantly higher than the percentage of operating revenue generated from customers. Conversely, this explains why Multimedia's percentage of operating expenses are significantly lower than the percentage of operating revenue.

As explained in the information provided in response to Request No. 6, Allband Directly assigns and or allocates the majority of expenses to its affiliates and non-regulated operations. Allband follows the procedures set-forth in the Part 64 rules for assignments of costs to non-regulated services. As such, much of Allband's costs are directly attributable to the regulated operations. The percentages shown above are a reasonable depiction of assignments based on the Part 64 Rules. Below is a brief description of the reasons for the relative percentages of assignments to regulated operations of the Cooperative and insights as to why these deviate from the relative percentage of customer revenue.

*Plant Specific Operations Expenses* – As shown above, 38 percent of the Plant Specific Operations expense is assigned to regulated operations. This doesn't include the portion of Plant labor that was capitalized and part of the projected funded by the grant. There was approximately \$173,000 of Payroll, Benefits and Other work equipment costs attributed to the grant. This expense, absent the existence of the grant, would have been charged to Multimedia. Had the expense been reflected in Multimedia expense accounts, the percentage of expense assigned to regulated operations would reflect approximately 24%. The percentage allocation of Plant Specific Operations to regulated operations fall within a reasonable range of the percentage of customer revenues or 32%.

*Network Operations Expenses* – for this category of expense, approximately 45% was assigned to regulated operations. This represents less than half of the expenses for this category. A significant portion of the expense assignments and allocations reflected in this category reflect the additional costs of the Cooperative for providing regulated telecommunications services. The percentage assignment of direct costs associated with the Cooperative and Multimedia are 71 percent and 29 percent, respectively. The major contributors to the difference are costs associated with emergency preparedness and USF contributions. A portion of the power expense initially assigned to the Cooperative is assigned subsequently to Multimedia. With regard to labor and other payroll related clearings, approximately 37 percent was assigned to the Cooperative's operations and 73 percent to Multimedia operations. These are relatively consistent with the percentages stated in the question.

*Plant Non-Specific Expenses* – The amount of expense in this account is relatively minor. The total is \$3,316 of which approximately 94 percent is regulated. The majority of this account or \$2,750 represents amortization of loan origination fees solely attributable to the Cooperative. Consequently, the assignment of this account to regulated operations is significantly higher than the relative percentage of customer revenue.

*Depreciation Expense* – 100% of these expenses are attributable to the Cooperative's facilities employed to provide regulated services. Since the overwhelming majority of the facilities employed to serve Multimedia customers were funded from the grant, there is no depreciation expense directly attributable to Multimedia operations. A portion of joint use facilities (support assets) were assigned to Multimedia in the annual cost study process. The total depreciation expense attributable to regulated services is 94%. While this percentage greatly exceeds the Cooperative percentage of customer revenue, it is reasonable since all depreciation expense is attributable to the Cooperative's facilities.

*Customer Operations* - for this category of expense, approximately 49% was assigned to regulated operations. This represents less than half of the expenses for this category. A significant portion of the expense assignments and allocations reflected in this category reflect the direct costs of the Cooperative for customer services associated with regulated telecommunications services. The percentage assignment of direct costs associated with the Cooperative and Multimedia are 79 percent and 21 percent, respectively. The major contributors to the difference are costs associated with vendor specific services that are directly assigned. With regard to labor and other payroll related clearings, approximately 30 percent was assigned to the Cooperative's operations and 70 percent to Multimedia operations. These are relatively consistent with the percentages stated in the question.

*Corporate Operations* - for this category of expense, approximately 92% was assigned to regulated operations. While this represents the majority of corporate expenses, most of the costs incurred were directly attributable to regulated operations. Audit costs, cost consulting costs, and legal expense are 100% attributable to the regulated operations of the Cooperative. These represented \$100,000 or 68% of the corporate expenses directly attributable to the Cooperative's operations. With regard to labor and other payroll related clearings, approximately 95 percent was assigned to the Cooperative's operations and 5 percent to Multimedia operations. While this appears to be skewed to the regulated operations, the majority of management and executive time worked was attributable to regulatory and legal proceedings. This time assignment was reflected in the directed reported hours of time spent by Allband's management. It should be noted that regardless of subscribership, the nature of its operations and recent regulatory reforms by both state and federal agencies has and will continue to incur a high level of expense that is independent of revenue and subscribership levels. Meaning, the Cooperative, independent of Allband Multimedia would likely have the same level of corporate expense with either 1,600 customers or 160. As noted, given that Allband Multimedia is essentially an extension of the Cooperative from both an administrative and infrastructure perspective, it requires minimal added oversight on the part of management and has minimal impact on corporate operations. Furthermore, as demonstrated in its legal activity, Allband has spent a vast amount of scarce resources challenging both State and Federal policies that has threatened its integrity, financial viability and ability to repay its RUS loan. Such activity, which is attributable to regulated expenses, could have been avoided if said policies had been managed differently by the relevant governing entities. The response to question 28 provides information relative to the significance of the regulatory and legal proceedings/activities involving Allband since 2008 and is further explored via a summary of required corporate expense generating activity below:

- Michigan Public Service Commission Reporting

- FCC Reporting
- NECA Tariff, Settlement and Universal Service Fund Compliance
- 911 Administration & Reporting
- Codes, registrations and other telco related requirements
- Numbering Administration and Reporting
- USDA Rural Utility Service Reporting and Audits (Cooperative loan, not grant)
- Michigan Personal Property Tax Reporting and Appeals
  - Allband has proactively appealed the level of personal property taxation on its infrastructure for several years and has recently engaged in litigation over the case)
- State and federal comments, inquiries, lobbying, ex-parte, etc.
- Right of way and permitting negotiations
- Misc. legal activity
- Carrier interconnection administration and dispute resolution
- Cooperative activity: administration, Board meetings, annual meetings
- Strategic planning of regulated products/services and growth
- Training and Development requirements of a green-field company
- Mapping requirements
- Community engagement
- Human resource activity
- State and national association participation
- Travel related requirements for all of the above
- Etc.

Allband management does acknowledge that it expects its high level of regulated corporate expense to potentially decrease over time (pending any future or unknown hurdles) as its ongoing state and federal regulatory obstacles are resolved. In light of the significant costs directly attributable to regulated services and the significant work load imposed by regulated activities, the allocation of corporate expenses are reasonable.

In summary, while Allband's allocations of operating expenses depart significantly from the relative percentage of its customer revenue, it has assigned or allocated expense in compliance with the Part 64 rules and has provided reasons why such allocations, in some cases are inconsistent with the relative percentage of its customer revenue.